

REPORT ON THE AUDIT OF THE BUREAU
OF ALCOHOL, TOBACCO AND FIREARMS'
UNLIQUIDATED OBLIGATIONS

OIG-00-012

November 3, 1999



Office of Inspector General

United States Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON

November 3, 1999

INSPECTOR GENERAL

MEMORANDUM FOR JOHN W. MAGAW, DIRECTOR
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

FROM: Dennis S. Schindel *Dennis Schindel*
Assistant Inspector General for Audit

SUBJECT: Report on the Audit of the Bureau of
Alcohol, Tobacco and Firearms'
Unliquidated Obligations

This memorandum transmits the final report on the Office of Inspector General's audit of the Bureau of Alcohol, Tobacco and Firearms' (ATF) unliquidated obligations as of June 1, 1999. Our objectives were to (1) determine if controls are in place to ensure that an adequate review of obligated balances is performed as required by U.S.C. Title 31 and (2) determine if any unliquidated obligations should be deobligated. Our procedures included obtaining an understanding of the procedures and controls over ATF's obligation process, and testing obligations to determine if any obligations should be deobligated. Our objective was not to opine on the fairness of ATF's unliquidated obligations balance.

The work we performed satisfied our objectives. We identified matters that we would like to bring to management's attention regarding ATF's process for the review of unliquidated obligations and the retention of supporting documentation which should be improved. These matters are discussed in detail in our report.

In accordance with the Department of the Treasury Directive No. 40-01, we request a corrective action plan be provided to us within 30 days of the date of this report for each recommendation. We recognize that certain corrective actions have already been undertaken and we encourage the continuance of these efforts.

Page 2.

Our findings and recommendations have been reviewed with your staff during our audit, and we have incorporated their comments as appropriate. Based on our mutual agreement we are issuing this report as final.

Should you or your staff have any questions, you may contact me at (202) 927-5400 or Michael Fitzgerald, Acting Director of Financial Audits at (202) 927-5789. We appreciate the cooperation and the courtesies extended to our staff.

Attachment

TABLE OF CONTENTS

Overview.....	1
Objectives, Scope, and Methodology.....	1
Audit Results.....	3
ATF's Review of Unliquidated Obligations Should be Improved.....	3
Recommendation	4
ATF's Controls Over the Retention of Supporting Documentation Should be Strengthened	4
Recommendations.....	5
Appendices	
1 Management Comments.....	6
2 Major Contributors to This Report.....	8
3 Report Distribution.....	9

Overview

Federal agencies receive annual and multi-year appropriations to finance their operations. Federal agencies obligate money from their appropriations when they identify a specific spending need, such as the acquisition of goods or services. After an agency receives goods or service, it pays for them from the obligated amount. Any amount remaining after all goods and services have been received and paid for should be deobligated and made available for other needs.

Obligations from annual appropriations are valid for 5 years. On September 30 of the fifth fiscal year after the annual appropriation period ends, the appropriation is closed and any remaining balance, whether obligated or unobligated, is canceled and not available for obligation or expenditure for any purpose.

The head of each agency is required to establish internal controls to assure that an adequate review of obligated balances is performed annually. After the close of each fiscal year, the head of each agency is required to submit to the President and the Secretary of the Treasury a report regarding the unliquidated obligations, unobligated balances, and canceled balances and adjustments made to appropriation accounts during the completed fiscal year. The report is required to be submitted no later than 15 days after the date on which the President's budget for the next fiscal year is submitted to Congress.

Objectives, Scope and Methodology

Our objectives were to (1) determine if controls are in place to ensure that an adequate review of obligated balances is performed as required by U.S.C. Title 31 and (2) determine if any unliquidated obligations should be deobligated. Our procedures included obtaining an understanding of the procedures and controls over the Bureau of Alcohol, Tobacco and Firearms' (ATF) obligation process, and testing obligations to determine if any should be deobligated. Our objective was not to opine on the fairness of ATF's unliquidated obligations balance.

To meet our objectives, we:

- met with budget and financial staff from ATF to obtain an understanding of its internal controls over the obligation process, including controls over deobligations;
- performed walkthroughs of key transactions and events in the obligation process;

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- reviewed ATF's reconciliation of unliquidated obligations to the Report on Budget Execution (SF 133);
 - tested a statistically selected sample of the unliquidated obligation balance of approximately \$188 million at June 1, 1999. We selected a sample of 43 unliquidated obligations, of which 15 were key items of \$1,000,000 or greater and 28 were randomly selected as statistical representation of the remaining population (non-key items). We reviewed source documentation related to each sample item to determine if the item represented a valid obligation;
 - provided ATF with a list of all unliquidated obligations of \$50 or less for review for possible deobligation. These items were excluded from the population of unliquidated obligations tested;
 - searched the database for obligations over 5 years old and determined that none existed; and
 - reviewed the unliquidated obligation account detail for unusual items.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller of the United States.

Audit Results

We concluded that, except for the internal control matters discussed below, controls are in place to ensure that an adequate review of obligated balances is performed as required by U.S.C. Title 31 and that ATF's unliquidated balances should be adjusted for the effect of the errors identified in our testing.

ATF's Review of Unliquidated Obligations Should be Improved

Although ATF had established policies and procedures for conducting semiannual reviews of unliquidated obligations, ATF did not properly identify all amounts that should have been deobligated during its latest review. The results of our tests of unliquidated obligations disclosed 12 invalid and 2 unsupported unliquidated obligations as discussed in the subsequent finding from the 43 sample items tested. ATF had only identified 5 of the 14 items during its review, which was ongoing at the time of our audit.

One error was identified during our testing of key items. This error resulted from an improper payment entry that caused the unliquidated obligation to be understated by approximately \$69,100. The 13 remaining errors, related to non-key items, resulted in unliquidated obligations being overstated by approximately \$34,500. These items related to balances that were either not billed or were only partially billed by the vendor. In each supported instance, no further invoices were expected from the vendor. Therefore, the remaining balances should have been deobligated. The net effect of the 14 errors identified resulted in an understatement of unliquidated obligations of approximately \$34,600.

In accordance with *Financial Management Division Policy – Unliquidated Obligations, Control Number 99-III-E*, program offices are required to indicate on receiving reports of payment/posting documents when final goods or services have been received. Upon final payment, the Financial Management System should close out any outstanding unliquidated obligations remaining in ATF's financial system. The results of our testing revealed that these closeout procedures were not consistently performed.

We projected the overstatement errors identified in our statistically selected sample of non-key items to the remaining unliquidated obligations not tested. Our projection indicated a possible overstatement of unliquidated obligations at June 1, 1999 of \$12 million or 6%. This projection reflects a possible amount to be deobligated had the entire population of non-key items been reviewed. We excluded the \$69,100 understatement as it represented a key item and all key items were tested.

Subsequent to the end of our fieldwork, ATF completed their ongoing review of unliquidated obligations and identified and deobligated transactions as necessary.

In accordance with Title 31 U.S.C. Section 1554 (b) (1), after the close of each fiscal year, the head of each agency shall submit to the President and the Secretary of the Treasury a report regarding the unliquidated obligations, unobligated balances, canceled balances, and adjustments made to appropriation account of that agency during the completed fiscal year. Title 31 USC Section 1554 (c) states that the head of each agency shall establish internal controls to assure that an adequate review of obligated balances is performed to support the certification.

Recommendation

We recommend that the Assistant Director (Management)/Chief Financial Officer:

1. Reemphasize ATF's policies and procedures relating to unliquidated obligations;
2. Ensure that all amounts subject to deobligation are properly identified and timely processed.

ATF's Controls Over the Retention of Supporting Documentation Should be Strengthened

ATF management is responsible for ensuring and supporting the validity and accuracy of financial information. To effectively fulfill this responsibility, documentation substantiating all transactions and significant events should be properly maintained. During our audit, ATF was not able to provide documentation substantiating obligations for 2 of the 28 non-key items tested. Supporting documentation was either missing or had been discarded. These 2 items were referred to in the previous finding.

Title 31 U.S.C. 1501 states that "an amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of (1) a binding agreement between an agency and another person (including an agency) that is (A) in writing, in a way and form, and for a purpose authorized by law; and (B) executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real property to be bought or leased, or work or service to be provided." In addition, the *General Records Schedule 3, Section 3. Routine Procurement Files*, requires files such as contract, requisition, and purchase order records be maintained for 6 years and 3 months after final payment.

Failure to retain supporting documentation affects ATF's ability to justify and validate open obligations. Moreover, reports generated on the basis of such information may not be accurate and critical decisions may be based upon erroneous information.

Recommendations

We recommend that the Director of ATF:

1. Reemphasize ATF's policies and procedures relating to the retention of documentation supporting all unliquidated obligations.
2. Ensure that a review is performed to reassess the validity of all transactions that are not supported.

Management Comments



ASSISTANT
DIRECTOR

DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
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MEMORANDUM TO: Assistant Inspector General of Audit

FROM: Assistant Director (Management)/
Chief Financial Officer

SUBJECT: Management Comments on the FY 1999 Audit of
ATF's Unliquidated Obligations

ATF has reviewed the draft report on the audit of ATF's Unliquidated Obligations and provides the following comments.

During the last four-year period, ATF went through four major restructurings within the Directorates of Field Operations; Office of Science and Technology; Firearms, Explosives & Arson; and Training & Professional Development that affected over 2,500 employees. With the restructuring came changes in program responsibility and personnel.

PricewaterhouseCoopers (PwC) first identified the issue within the unliquidated obligations process during its FY 1998 financial audit. In response to the PwC Management Letter Comment, policy and procedures have been developed and corrective actions are being implemented.

Finding: ATF's Review of Unliquidated Obligations should be Improved.

ATF agrees with the recommendation. ATF was conducting its mid-year review of unliquidated obligations when OIG began its review. Since that time, ATF has completed its review and deobligated amounts as necessary. We believe that much stronger focus and controls have been placed on unliquidated obligation reviews. New procedures will be implemented as an outcome of the previous year's audit recommendations. In addition, the functionality of the new financial system, which is being installed for FY 2000, will further enhance the controls over the unliquidated obligations review.

The new financial system will place the responsibility of deobligations with the program office for they will have on-line, real-time capability. Monthly reviews by all program offices will be conducted.

Management Comments


-2-

Assistant Inspector General of Audit

Finding: ATF's Controls Over the Retention of Supporting Documentation Should be Strengthened.

We agree with the finding that supporting documentation of all transactions and significant events must be retained to justify and validate transactions. FMD will develop and distribute policy to the program offices to ensure supporting documentation is being retained.

ATF appreciates the opportunity to review and comment on the OIG findings. If you have any questions regarding this memorandum, please contact Marguerite Moccia, Deputy Chief Financial Officer, on (202) 927-8420.


for William T. Earle

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